

Embargoed until: 08:00 (MOSCOW), 1 November 2010

## HSBC Russia Manufacturing PMI™

Russian manufacturing output growth remained subdued, despite renewed job creation.

### Key findings:

- New orders grew at weakest rate in current seven-month sequence.
- Employment rose for third time in four months.
- Input price inflation accelerated to twenty-seven month high.

HSBC survey data suggested that the recovery in Russia's manufacturing sector remained lacklustre in October, while inflationary pressures intensified. Production growth slowed for the fourth month running, and average input prices rose at the fastest rate in over two years. The main positive finding from the latest survey was a rise in employment in the sector.

The headline figure from the survey is the seasonally adjusted HSBC Russia Manufacturing PMI™, a composite index designed to track overall business conditions. Any figure greater than 50.0 signals improvement, below 50.0 contraction. The PMI posted 51.8, up from 51.2 in September. However, the rise in the headline figure was driven by higher employment and a greater lengthening of suppliers' delivery times, and masked weaker gains in both output and new orders. The PMI also remained below its long-run trend of 52.1.

Production growth weakened further in October and remained sluggish. Expansion was maintained for the fifteenth successive month, but the rate has slowed continuously since July. The latest rise was the weakest for seven months, and muted when viewed in the context historic survey data.

The weaker rise in output reflected subdued growth in new orders. The volume of new work received by manufacturers increased overall for the seventh straight month, but at the slowest rate over this period. New export business registered outright contraction for the fourth month running, and at the

fastest rate since March.

Although both output and new orders rose more slowly during the month, Russian manufacturers expanded their workforces, on average, for the third time in four months. The rate of job creation was the fastest since May.

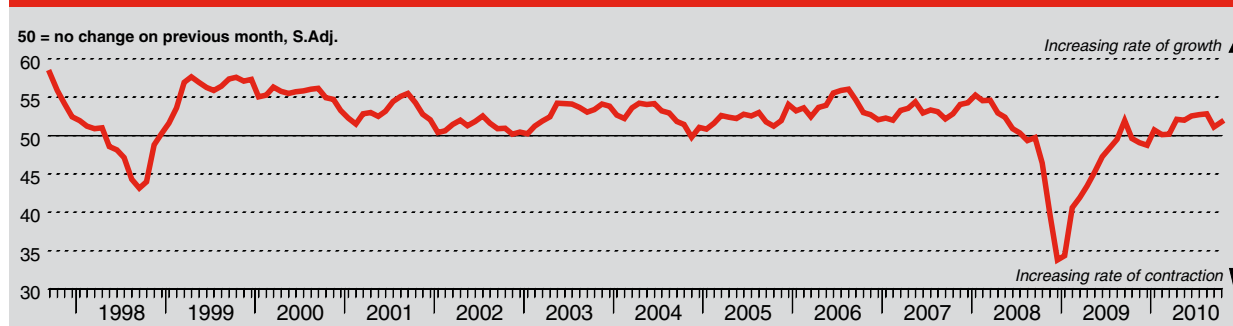
A combination of weaker new order growth and recruitment of additional staff helped Russian manufacturers to cut backlogs sharply during October. Moreover, the rate of reduction was the sharpest since April 2009.

Input price inflation in the Russian manufacturing sector accelerated for the third month running in October, reaching a twenty-seven month high. Cotton prices were reported to have risen, linked to the poor harvest, while metals were also cited as a source of inflationary pressure. Input price inflation in October was greater than the long-run survey trend.

Rising cost pressures led to a marked increase in prices charged by Russian manufacturers for their goods in October. Output prices have risen on average every month since July 2009 and, over the past three months, the rates of inflation have been faster than in any other period since July 2008.

Suppliers' delivery times lengthened at the fastest rate for almost three years in October. Firms commented on transport delays, linked in part to shortages of rail freight capacity. Delivery times have lengthened in every month since October 2008.

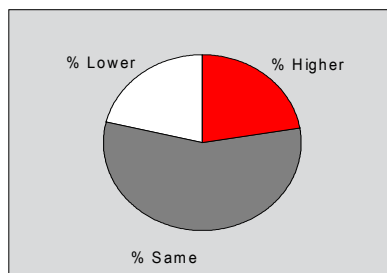
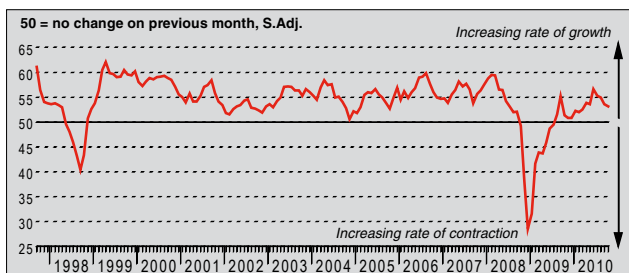
### HSBC Russia Purchasing Managers' Index (PMI™)



The HSBC Russia Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

### Output Index

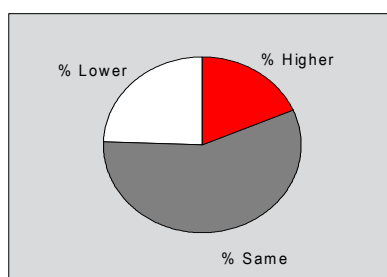
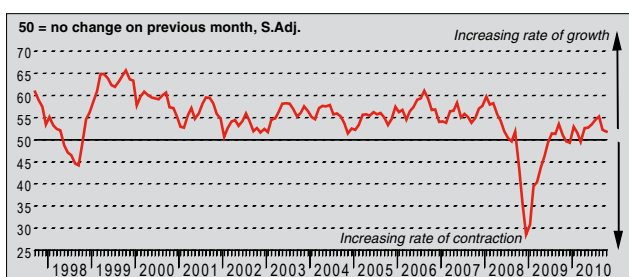
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Russia expanded for the fifteenth month in succession in October. Anecdotal evidence provided by survey respondents linked the latest rise in output to higher new orders. The rate of expansion remained, however, weaker than the survey's thirteen-year long-run average. It was also the slowest growth since March. The seasonally adjusted Output Index has now fallen for four months in a row, the longest sustained slide since that registered between March and August 2008.

### New Orders Index

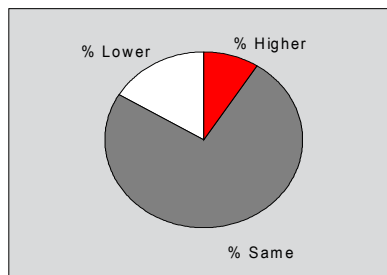
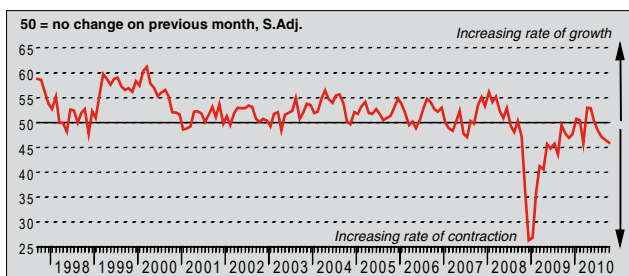
Q. Please compare the level of new orders received this month with the situation one month ago.



October data signalled subdued growth of new orders received by Russian manufacturers. The seasonally adjusted New Orders Index fell for the second month running, to signal the slowest rate of growth in the current seven-month sequence of expansion. It was also well below its long-run trend level of 54.8. Survey respondents indicated that underlying demand for their goods remained fragile.

### New Export Orders Index

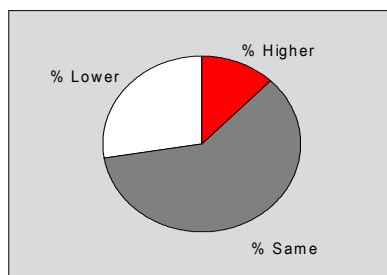
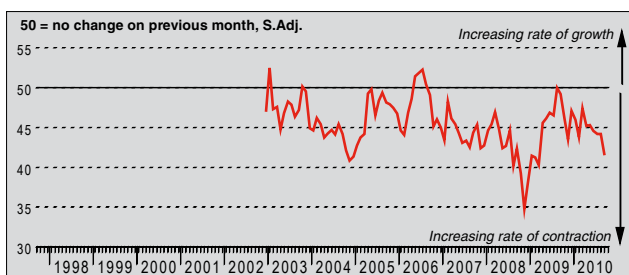
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export business placed with Russian manufacturers declined further in October. The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the fourth successive month, and fell to its lowest since March. Around 16% of companies reported lower new export orders compared to one month previously, while nearly three-quarters reported no change.

### Backlogs of Work Index

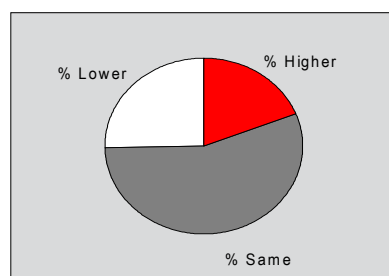
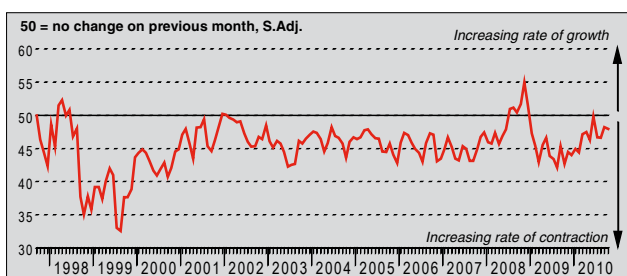
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of outstanding business in the Russian manufacturing sector continued to fall in October, reflecting a lack of pressure on capacity and subdued demand. Backlogs of work have now fallen for thirteenth successive months. Moreover, the seasonally adjusted Backlogs of Work Index signalled the fastest rate of decline since April 2009.

### Stocks of Finished Goods Index

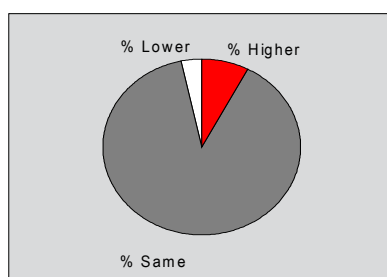
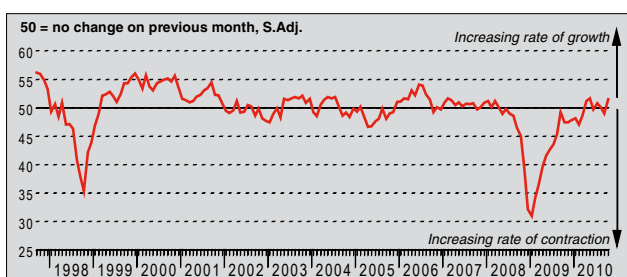
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Finished goods held in stock in the Russian manufacturing sector declined for the twenty-second month running in October. According to survey respondents, the latest contraction reflected shortages of inputs, sales rising faster than production and the quicker shipment of orders to customers. Around one-quarter of companies reported lower warehouse stocks of final goods in October compared to one month earlier.

### Employment Index

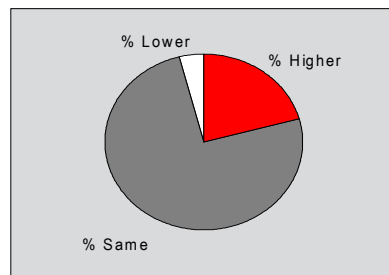
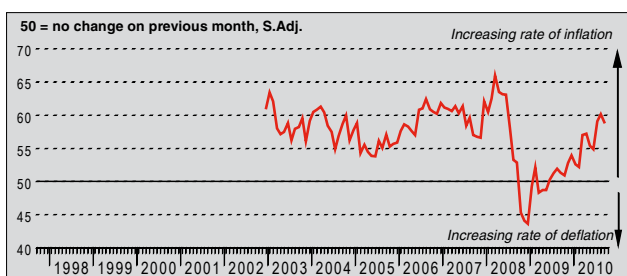
Q. Please compare the level of employment at your unit with the situation one month ago.



Russian manufacturers added to their workforces on average in October. The rate of job creation was modest, but the sharpest signalled since May. The seasonally adjusted Employment Index has now registered above the no-change mark of 50.0 in five of the past seven months. It was also above its long-run trend level of 49.7 during the latest period. Firms linked higher recruitment to new orders and rising output requirements.

### Output Prices Index

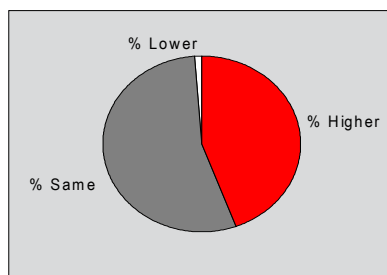
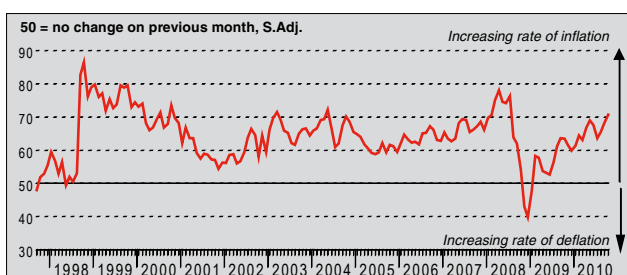
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Russian manufacturers continued to raise their charges at a marked rate in October. The seasonally adjusted Output Prices Index has signalled factory gate inflation for sixteen successive months. Moreover, the rate of output price inflation eased only slightly from September's twenty-six month high. Firms linked rising charges to higher input prices, particularly for metals and electronic components.

### Input Prices Index

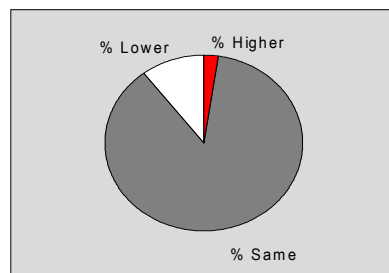
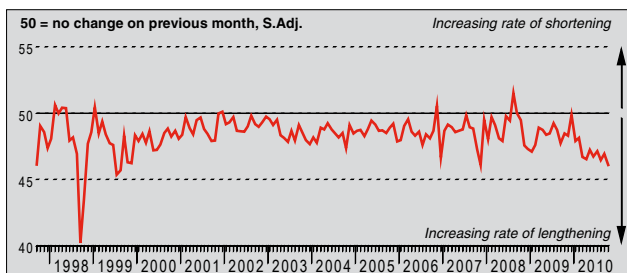
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of input price inflation faced by Russian manufacturers accelerated further in October. The seasonally adjusted Input Prices Index moved up for the third month running, and signalled the fastest rate of increase in average input costs since July 2008. It was also high in the context of historic survey data (the Index averages 64.5 since it began in September 1997). Anecdotal evidence suggested the poor harvest was a source of recent inflationary pressure, with cotton prices highlighted in particular. Metals and oil-related products were also reported to have increased in price.

## Suppliers' Delivery Times Index

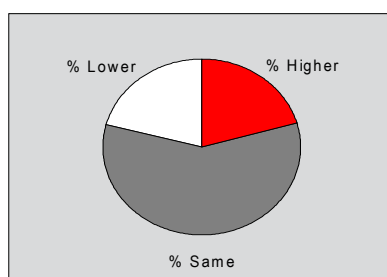
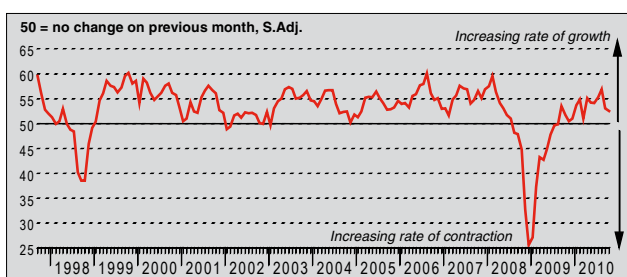
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of suppliers to Russian manufacturers worsened considerably in October. The seasonally adjusted Suppliers' Delivery Times Index fell to its lowest level in the current sequence of sub-50 readings, which signal lengthening delivery times on average. Moreover, the latest figure signalled the greatest degree of lengthening since November 2007. Survey respondents highlighted raw material shortages and a lack of transport capacity as contributing to supplier delays during the month, notably rail freight capacity.

## Quantity of Purchases Index

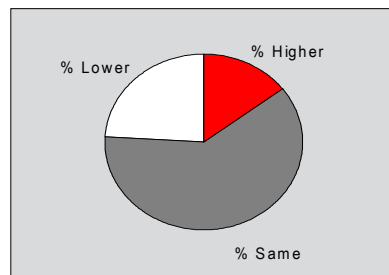
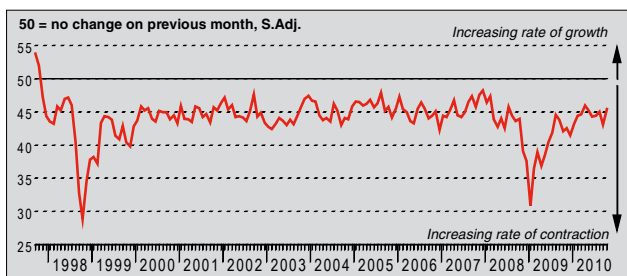
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Russian manufacturers raised their purchases of inputs for the fourteenth month in succession in October. Sustained growth in demand for inputs reflected higher production requirements and efforts to replenish stocks. The seasonally adjusted Quantity of Purchases Index fell below its average for the current sequence of expansion, however, and signalled the slowest rate of growth since March.

## Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Remaining below the neutral level of 50.0, the seasonally adjusted Stocks of Purchases Index signalled a further overall decline in input inventories in the Russian manufacturing sector in October. Despite registering a six-month high, the Index still indicated a sharp rate of contraction, with almost one-quarter of survey respondents reporting lower stocks. Firms mainly linked declining stocks of purchases to supply disruptions.

## Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 manufacturing companies. The panel is stratified by Standard Industrial Classification (SIC) group, based on industry contribution to Russian Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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